

Edward Harrington  
Controller

John W. Madden  
Chief Assistant Controller

June 15, 1998

The Honorable Board of Supervisors  
City and County of San Francisco  
Room 308, Veterans Building  
San Francisco, California 94102

Re: Budgeted Revenues for Fiscal Year 1998-99

Dear Members of the Board:

Charter Section 9.102 requires that the Controller "provide the Board of Supervisors with an opinion regarding the accuracy of economic assumptions underlying the revenue estimates [in the Mayor's Proposed Budget] and the reasonableness of such estimates and revisions." My office and the Mayor's Budget Office have worked very closely to prepare the proposed 1998-99 budget revenue estimates. **In my opinion, the proposed revenue estimates contained in the Mayor's 1998-99 budget are based on a reasonable assumption of moderate economic growth.**

What follows is a discussion of the revenue estimates of the Mayor's Proposed Budget. It is organized as follows:

- I. General City Revenues
- II. General Fund Supported Departmental Revenues
- III. Self-Supporting Enterprise Departments

#### **I. GENERAL CITY REVENUES**

The General City revenue estimates are based on the three-year budget projection developed jointly by the Mayor's Budget Office, the Controller's Office, and the Board of Supervisors Budget Analyst, as updated by the Controller's nine-month report. The Controller's nine-month report provides year-end estimates of General Fund revenues for 1997-98. These amounts are combined with the projected growth rates from the three-year budget projection to determine the revenue estimates for the 1998-99 budget. Growth rates were developed in consultation with economic advisors of the Municipal Fiscal Advisory Committee to the Mayor.

Chart A presents historical and projected estimates for major General Fund revenue sources. These revenue sources represent the City's discretionary revenue base of approximately \$1.1 billion. In general, the City has experienced very strong growth in most general city revenues, with total growth of 10.5% and 7.1% in the past two years, respectively. Overall, in the 1998-99 budget these General Fund revenue sources are projected to increase 3.6% over the current year-end revenues.

**Chart A: Major General Fund Revenues**  
(figures in thousands of dollars)

	FY96-97 Actual	FY97-98		FY98-99
		Original Budget	Year-End Projection (1)	Proposed Budget (2)
Property Taxes	\$322,474	\$325,653	\$338,973 5.1%	\$345,153 1.8%
Business Taxes	200,922	200,990	220,250 9.6%	231,263 5.0%
Sales Tax (3)	108,099	113,102	110,820 2.5%	114,135 3.0%
Utility Users Tax	55,883	56,293	56,087 0.4%	56,087 0.0%
Prop. Transfer Tax	33,573	32,212	42,117 25.4%	42,350 0.6%
Hotel Tax (4)	137,649	141,006	152,167 10.5%	163,580 7.5%
Parking Tax (General Fund)	15,973	15,080	17,198 7.7%	17,198 0.0%
Public Safety Sales Tax	53,912	55,437	57,655 6.9%	60,538 5.0%
Motor Vehicle In-Lieu	69,441	74,172	73,357 5.6%	76,292 4.0%
<b>Total - Major Revenues</b>	<b>\$997,926</b>	<b>\$1,013,945</b>	<b>\$1,068,624</b> 7.08%	<b>\$1,106,596</b> 3.55%
	<b>\$ Change</b>		<b>\$70,698</b>	<b>\$37,972</b>
	<b>% Change</b>			

Notes:

- (1) Percentage increase represents the increase in 1997-98 year-end projection over 1996-97 actual revenues.
- (2) Percentage increase represents the increase in 1998-99 budget over 1997-98 year-end projected revenues.
- (3) Overall growth in sales taxes is 7.2% in 1997-98; however, San Francisco no longer receives sales taxes on jet fuel sales because Chevron relocated its sales office outside the city; therefore, city's growth rate is lower.
- (4) City ordinance allocates a portion of the hotel tax to specific purposes, such as cultural centers, arts, and the Moscone Center. The unallocated amount available to the General Fund is \$56.5 million in 1998-99.

## **Current Year-End Surplus**

The proposed budget includes a projected current year surplus of \$101.7 million. As noted in the Controller's nine-month report, the 1997-98 year-end surplus is a result of three factors. First, prior year (1996-97) actual revenues were higher than projected, increasing the balance available at the beginning of the current year (1997-98). Second, current year revenues continue to be strong, and are projected to be \$63 million higher than originally budgeted. Third, current year expenditures are somewhat lower than budgeted. The resulting year-end balance of \$101.7 million will be carried forward into the 1998-99 budget.

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## **Discussion of Budget Estimates for Major Revenues**

**Property tax** estimates are based in part on the Assessor's projected tax roll for 1998-99. According to the Assessor's estimates, the tax roll will increase by 5.0% from the 1997-98 roll to the 1998-99 roll. For purposes of projecting the General Fund portion of property taxes, we take several other factors into consideration as well. First, some of the increase in the Assessor's tax roll is already reflected in the 1997-98 year-end revenue projection, due to mid-year reassessments and other transactions. As a result, the percentage increase in property tax revenues in 1998-99 is less than the percentage increase in the value of the tax roll. In addition, we factor in likely appeals, reassessments, and major property transactions. For example, the sale of the Embarcadero Center is likely to result in a reassessment and increased property taxes in 1998-99. Finally, we take into account changes in the allocation of the property tax to other non-General Fund departments. For example, this year there is increased funding for the Redevelopment Agency from property tax revenues. Overall, the General Fund share of property taxes is projected to increase by 1.8% over 1997-98 year-end estimates.

**Sales tax** receipts have continued to increase in the current year, but at a slower rate than in the past. In addition, current year revenue estimates are lower than originally projected because of the relocation of Chevron's sales office outside the City, which affects jet fuel sales. For fiscal year 1998-99, we are projecting a modest growth of 3.0%.

**Utility users tax** receipts have been almost flat in the current year. While some utility taxes are increasing (primarily telephone services) others are declining, particularly gas and electric utilities. Further, deregulation in the electric utility industry is likely to affect tax revenues. As a result, we are projecting no growth in utility taxes for 1998-99.

**Real property transfer tax** revenues have increased substantially in the last three years (\$23 million in 1995-96, \$34 million in 1996-97, and a projected \$42 million in 1997-98). These increases are due to higher property values, a large volume of sales transactions, and the sale of several large commercial properties. The projection for the 1998-99 budget is based on the average revenues for the past three years, plus a one-time adjustment for the sale of the Embarcadero Center.

**Hotel taxes** have shown significant growth in the past three years, reflecting lower vacancy rates and higher room. There are, however, natural limits to this continued level of growth, including short-term capacity constraints. We project that hotel tax receipts will increase by 7.5% in 1998-1999. Because a portion of the hotel tax is designated for specific purposes, as specified by ordinance, the unallocated portion of hotel tax revenues that is available to the General Fund will increase by only 5.9%, from \$53.4 million to \$56.5 million.

**Parking tax** revenues have increased over the past two years due to continuing strong economic growth and enhanced enforcement activity. In 1998-99, we anticipate a leveling off of receipts at the current level. The amount in Chart A reflects only the portion of parking tax revenues that remains in the General Fund; the Municipal Railway and the Parking and Traffic Commission also receive a portion of parking tax revenues.

**Public safety sales tax** (Proposition 172) is expected to grow at the same rate as statewide sales, which is projected to be 5.0%.

**Motor vehicle in lieu** subventions are experiencing relatively strong growth in the current fiscal year. We expect these revenues to increase at a more moderate rate of 4.0% in the 1998-99 fiscal year.

### **General Fund Department Revenues**

Several departments within the General Fund also receive revenues from non-General Fund sources. In particular, the Department of Human Services and the Recreation and Parks Commission have substantial outside revenues, as described below.

#### **Human Services**

The Department of Human Services expects to receive more than \$218 million in non-General Fund revenues, primarily federal and state funding for specified programs. In the 1998-99 budget, these program revenues are projected to increase by \$33.5 million due primarily to full implementation of the California Work Opportunities and Responsibility to Kids (CalWORKS) program (the state's welfare -to-work plan) as well as increases in five other program areas: adult social services, food stamps, in-home supportive services, foster care, and Medi-Cal. Actual program funding is expenditure driven, so 1998-99 receipts will be dependent on program expenditures. These program increases are summarized below.

- Full implementation of CalWORKS will produce an additional \$15.8 million.
- New adult service programs will result in an additional \$5.4 million.
- Revenues for food stamps will increase by \$4.4 million.
- Revenues for in-home supportive services (IHSS) will increase by \$3.3 million to provide for increased wage and health benefits for all IHSS providers.
- Medi-Cal revenues will increase by \$3.2 million to cover administrative costs associated with additional caseload management as recipients move from welfare to jobs under the CalWORKS program.

- Foster care revenues will increase by \$1.4 million to cover the additional cost of foster family home care.

### Recreation and Park

Approximately 15%, or \$12.2 million, of the Recreation and Park Commission's 1998-99 revenues are generated by charges for services. These charges are projected to increase by nearly 23%, or \$2.8 million, in 1998-99. The major changes in Recreation and Park revenues are as follows:

- 3Com Park revenues will increase by \$1.4 million largely due to ticket price increases.
- Fee increases for several facilities will increase revenues by \$0.8 million.

## II. GENERAL FUND SUPPORTED DEPARTMENTS

Several departments, in addition to receiving General Fund support, have revenue sources specific to their functions. General Fund supported departments include the Municipal Railway, and the two Health Department hospitals, San Francisco General and Laguna Honda. Increases or decreases in those revenue sources may directly affect the General Fund support to these departments. Revenue projections were developed individually by the departments and reviewed by the Controller's Office for reasonableness. These departments' non-General Fund revenue sources are presented below.

### Municipal Railway

Of the Municipal Railway's \$332 million proposed budget, nearly \$242 million comes from dedicated revenue sources, as illustrated in Chart B.

**Chart B: Municipal Railway Revenue Sources**  
 (figures in thousands of dollars)

	FY96-97 Actual	FY97-98 Year-End Projection	FY98-99 Proposed Budget	Proposed vs. Revised
Fare Revenues	\$95,628	\$97,535	\$97,665	\$130
Sales Tax Subventions	46,707	51,468	60,084	8,616
Parking Tax	15,973	17,198	17,198	-
Garages	7,721	8,061	8,584	523
Bridge Tolls	1,925	-	-	-
Traffic Fines	47,884	48,201	58,234	10,033
<b>Total</b>	<b>\$215,838</b>	<b>\$222,463</b>	<b>\$241,765</b>	<b>\$19,302</b>

The most significant aspects of the Municipal Railway's revenues are as follows:

- Fare revenues are expected to remain fairly constant for the 1998-99 budget year, as they have for the past year.
- Transportation sales tax allocations by the Metropolitan Transportation Commission (MTC) will increase by \$8.6 million due to additional sales tax revenues.
- Parking tax revenues will remain at current levels.
- Traffic fine revenues will increase by \$10 million, which results from hiring of additional Parking Control Officers, funding for ticket processing systems and a fee increase for street sweeping violations.

Overall, the Municipal Railway's designated revenue sources are projected to increase 8.7% in 1998-99.

### **Public Health**

The Department of Public Health, which consists of both the Community Health Network Division and the Public Health Division, expects to receive more than \$600 million in non-General Fund revenues in 1998-99, primarily from federal and state sources. The department anticipates increases in some sources partially offset by reductions in other sources. The most significant revenue changes are noted below. Overall, the Department of Public Health projects those non-General Fund revenues will increase by nearly \$12 million.

- Medi-Cal payments will increase at San Francisco General Hospital and Primary Care clinics due to increased utilization and the hospital's participation in a new Medi-Cal program for graduate medical education.
- Medicare and Medi-Cal revenues will decrease at Laguna Honda Hospital because certain expenses are ineligible for reimbursement.
- Federal and state grants for Public Health programs, such as substance abuse, AIDS, and mental health, are projected to decline. At the same time, the department expects to receive other grants not currently included in the 1998-99 budget. As grant awards are received, the department will request approval to accept and expend additional grant funds.
- The state allocation of sales tax and motor vehicle revenues, under the state's Health and Welfare Realignment program, will decrease due to a change in the factors underlying the allocation formula.

### **III. SELF-SUPPORTING ENTERPRISE DEPARTMENTS**

Enterprise departments such as Water, Clean Water, Hetch Hetchy, the Port and the Airport are supported by user fees and are not supported by the City's General Fund. The underlying assumptions of the 1998-99 proposed revenues for these departments are highlighted below:

- Water and Clean Water do not include any rate increases for San Francisco residents. Both programs anticipate significant increases in spending for capital projects funded with voter-approved bond proceeds; \$39.3 million for the Clean Water Program and \$84.5 million for the Water Department.
- Hetch Hetchy revenues are expected to increase due to additional power sales to assigned customers under the PG&E settlement.
- The Airport's budget includes increases in landing fees and additional concession revenues from new facilities, such as the rental car garage.

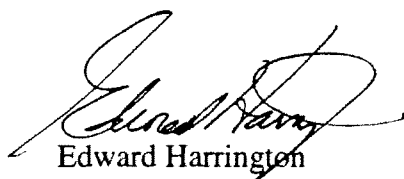
Overall, these enterprise revenues and expenditures are projected to increase by \$159.4 million in 1998-99, as illustrated in Chart C.

**Chart C: Enterprise Revenues**  
 (figures in thousands of dollars)

<u>Enterprise</u>	<u>FY96-97 Actual</u>	<u>FY97-98 Revised Budget</u>	<u>FY98-99 Proposed Budget</u>	<u>Proposed vs. Revised</u>
Clean Water Program	\$139,768	\$170,807	\$193,249	\$22,442
Water Department	\$128,831	\$153,888	\$231,827	\$77,939
Hetch Hetchy	\$92,193	\$112,655	\$122,439	\$9,784
Airport Commission	\$258,037	\$308,701	\$358,133	\$49,432
Port	<u>\$48,123</u>	<u>\$41,994</u>	<u>\$41,771</u>	<u>(\$223)</u>
Total	\$666,952	\$788,045	\$947,419	\$159,374

If you have any questions or concerns regarding the information presented in this report please feel free to contact me or Ann Carey of my staff at 554-7500.

Sincerely,



Edward Harrington  
 Controller

Budgeted Revenues for Fiscal Year 1998-99

June 15, 1998

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cc: Mayor Willie L. Brown, Jr.  
Matthew Hymel, Mayor's Budget Office  
Harvey Rose, Board of Supervisors Budget Analyst

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